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BLACK HAWK MINING LTD.

(No Personal Liability)

Annual Report

FOR THE PERIOD ENDED DECEMBER 31, 1965

BLACK HAWK MINING LTD.

(NO PERSONAL LIABILITY)



OFFICERS

John Kostuik, B.Sc.	President
The Honourable Harry A. Willis, Q.C.	Vice-President
A. F. Risso	Secretary-Treasurer
A. F. Casselman	Assistant Secretary-Treasurer

DIRECTORS

John Kostuik, B.Sc.	Toronto
Marsh A. Cooper, M.A.	Toronto
Joseph A. Patrick	New York
Joseph J. Rankin	Toronto
A. F. Risso	Toronto
Anthony Roman	Toronto
The Honourable Harry A. Willis, Q.C.	Toronto

MINE MANAGER

T. D. Anderson, B.Sc.	Blue Hill, Maine
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SOLICITORS

Manley, Grant & Armstrong
Toronto, Ontario

TRANSFER AGENTS

The Guaranty Trust Company of Canada
Montreal, Quebec

AUDITORS

Soupcoff, Starkman, Kraft & Co.
Toronto, Ontario

BANKERS

The Royal Bank of Canada
Toronto, Ontario

HEAD OFFICE

Suite 804
Place Victoria
Montreal, Quebec

EXECUTIVE OFFICE

20th Floor
4 King Street West
Toronto, Ontario

MINE OFFICE

Blue Hill, Maine, U.S.A.

President's Report

TO THE SHAREHOLDERS:

An annual meeting of the shareholders of Black Hawk Mining Ltd., will be held on Friday, April 29, 1966, at 11:30 a.m. Eastern Standard Time, in the Prince of Wales Room of the Windsor Hotel, Montreal, Quebec.

Notice of the meeting is enclosed for your attention, together with an instrument of proxy, the consolidated balance sheet of the Company and its wholly-owned subsidiary as at December 31, 1965, and the consolidated statements of exploration and development and corporate expenses for the period ended that date, as reported on by the Company's auditors. In accordance with a resolution passed at the Annual and Special Meeting of the shareholders held on July 29, 1965, the fiscal year end of the Company was changed from April 30 to December 31, hence the attached financial statements cover the period of eight months from May 1, 1965 to December 31, 1965.

As reported in our letter of July 12, 1965, debentures with a face value of \$2,000,000 were sold to Denison Mines Limited and the resulting funds were used in part to retire \$1,500,000 of the Company's 6½ % Secured Notes. Debentures with a face value of \$375,000 have since been sold to Denison Mines Limited.

The progress report dated March 10, 1966 is duplicated for the benefit of shareholders who have not received it.

"Black Hawk Mining Ltd., 44% owned associated company of Denison Mines Limited, has under leases or owns the mineral rights on 717 acres in Hancock County, State of Maine, U.S.A. It has concluded the first phase of its plant programme and underground development the latter consisting of sinking a three-compartment shaft to a depth of 698 ft. with stations at the 280-ft., 380-ft., 480-ft., 580-ft. and 680-ft. horizons. Exploration and development work has been done on the 380-ft., 480-ft. and 580-ft. levels, totalling 2,738 ft. of crosscuts, 4,631 ft. of drifting, 1,098 ft. of raises and 19,964 ft. of underground diamond drilling to January 31, 1966, and has confirmed the ore reserves, indicated by surface drilling for the area developed. Of the 233 acres covered by surface diamond drilling, 45 acres or 6% of the property has been explored underground.

Mr. Walter Brown, B.Sc., P.Eng., consulting engineer, reports that the work on the zinc orebody to January 31, 1966 has disclosed 700,000 tons with a grade of 14.32% zinc and 0.54% copper, at 30% dilution. Lying underneath this zinc zone, and readily accessible, is a portion of the Lower Second Pond zone containing 170,000 tons of copper ore with a grade of 2.55% copper and 0.51 ozs. silver, dilution at 20%. The Mammoth zone copper ore to the West contains 330,000 tons at 1.77% copper, 0.51 ozs. silver with dilution at 20%.

These reserves are all above the 780-ft. level, with a very minor portion between the 580 and 780-ft. levels, and exclude the amount required for a surface pillar. Undoubtedly, considerable additions to these tonnages will be made. For example, underground work to the East of the main crosscut, accomplished since the consultant's report, has indicated that the zinc zone could be expanded a further 150,000 - 250,000 tons.

There is also a reserve of about 350,000 tons of lead-silver ore outlined with an indicated grade of 7% lead and 4.5 ozs. silver per ton, the economics of which have not been considered in the consultant's report.

In addition, there has been outlined 765,000 tons of zinc, mixed copper and zinc and copper mineralization which, at \$0.145 U.S. per pound for zinc and \$0.38 Cdn. for copper used in the report, is marginal. It is very possible that this tonnage will be mined at a later date or if copper prevails at present prices.

No development work has been done on the Douglas copper zone which, from previous surface diamond drilling, indicated 1,025,000 tons with a grade of 1.63% copper and 0.40 ozs. silver, dilution at 20%.

Metallurgical test-work from diamond-drill core has indicated that recoveries of 90% of the zinc and 60% of the copper from the zinc ore and 90% recovery of the copper from the copper ore can be achieved, in a concentrate of good grade. Complete metallurgical tests on suitable mine samples are being done by Lakefield Research. In addition, a feasibility study is being made on the production of pyrite concentrate for which inquiries have been received.

The undulating nature of the zones, particularly that of the zinc, has required that dilution factors be applied totally unrelated to the excellent roof and wall strengths within the mine. Operating costs are estimated at \$10.70 Cdn. for the zinc ore, \$9.88 for the Lower Second Pond zone and \$9.05 Cdn. for the Mammoth zone.

The consulting engineer reports that the confirmed ore reserves are sufficient to bring the property into operation on the basis of 500 tons of zinc ore and 100 tons of copper ore per day. With recoveries as previously noted and at prices of \$0.145 U.S. per pound for zinc and \$0.38 Cdn. for copper, the operating profit per year is estimated at \$2,132,000 Cdn.

Preproduction and capital costs to January 31, 1966 are \$2,414,000. A further \$3,445,000 is required to prepare the plant for production rate of 600 tons per day, including inventory, interest and working capital.

The consulting engineer recommends, initially, a plant of 600 tons per day to treat 180,000 tons of zinc ore per year and 36,000 tons of copper per year provided that satisfactory arrangements with the American Government can be made to import at least 75 experienced men for the operation and provided that arrangements for suitable housing, at little or no cost to the company, be made. He further recommends the shaft be deepened 215 feet, with auxiliary ore-pass and ventilation systems."

Since the report, bench scale flotation tests by Lakefield Research of Canada have been completed on the massive zinc ore. Results were satisfactory and higher than previously indicated. Recovery of 93% in a concentrate assaying 55% was achieved. Higher recoveries for the copper ore were obtained at 92% in a concentrate assaying 25% copper. Recoveries would be increased with recirculation of cleaner tailings. Further work on copper and copper-zinc ores is planned to establish optimum conditions.

The work underground was limited to the extension of the zinc zone to the East of the main crosscut on the 380-ft. horizon. The drift was advanced a further 242.5 ft. showing 23.66% zinc over 5.5 feet. In addition, a raise approximately 350 feet from the end of the drift was extended 200 feet and assayed 22.31% zinc over 7.1 feet. To explore the down-dip extension of this zone a raise is planned to be driven from the 580-ft. horizon. No revision to the past ore reserve can be made until this minimal work is completed.

Preliminary discussions have taken place with governmental authorities and the necessary briefs and reports regarding work permits and On-The-Job-Training programmes are being prepared for formal presentation.

Submitted on Behalf of the Board of Directors,

Toronto, Ontario,
April 12, 1966.

JOHN KOSTUIK,
President.

BLACK HAWK

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BLACK HAWK

Consolidated Balance Sheet

ASSETS

Current Assets:

Cash	\$ 50,275
Accounts receivable	3,694
Prepaid expenses	9,421
Materials and supplies on hand, at average cost	29,176 \$ 92,566

Statutory Deposit:

Province of Quebec \$1,000 Bond, at cost	862
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Fixed Assets, at cost (Notes 4, 5 and 6):

Mining claims and mining rights	\$ 60,370
Lands, roads and leased properties	127,380
Buildings, machinery and equipment	720,637 908,387

Deferred Expenses:

Exploration and development expenses — Schedule "A"	\$1,247,498
Corporate expenses — Schedule "B"	265,446
Organization expenses	5,441
Bond discount and financing expenses (Note 1)	188,409 1,706,794

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board,

JOHN KOSTUIK, Director.

A. F. RISSO, Director.

\$2,708,609

AUDIT

To the Shareholders of
BLACK HAWK MINING LTD.
(No Personal Liability)
Montreal, Quebec

We have examined the consolidated balance sheet of BLACK HAWK MINING LTD. for the year ended December 31, 1965, and the statement of changes in equity for the same period. We have also examined the accompanying consolidated statement of cash flows for the same period. In our opinion, the accompanying consolidated balance sheet together with the statement of changes in equity and the statement of cash flows present fairly the financial position of the Company in accordance with generally accepted accounting principles.

In our opinion, the accompanying consolidated balance sheet together with the statement of changes in equity and the statement of cash flows present fairly the financial position of the Company in accordance with generally accepted accounting principles.

Toronto, Ontario.
January 10, 1966.

MINING LTD.

Liability)

ED SUBSIDIARY

ORPORATION

December 31, 1965 (Note 7)

LIABILITIES

Current Liabilities:

Accounts payable and accrued charges	\$ 69,785
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Long-Term Debt:

6½ % Debentures Series A, due June 30, 1974 (Note 1)	2,100,000
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\$2,169,785

Capital Stock (Notes 1 and 2):

Authorized:

5,000,000 shares with a par value of \$1.00 each	<u>\$5,000,000</u>
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Issued and fully paid:

900,000 shares for mining claims and options thereon	\$ 900,000
Less: Discount thereon	840,000
	<u>\$ 60,000</u>

400,000 shares for acquisition of wholly-owned subsidiary	\$ 400,000
Less: Discount thereon	373,031
	<u>26,969</u>

2,719,009 shares for cash	\$2,719,009
Less: Discount thereon	2,267,154
	<u>451,855</u>

4,019,009 shares 538,824

\$2,708,609

REPORT

D. (No Personal Liability) as at December 31, 1965 and the schedules of consolidated
mination included a general review of the accounting records and other supporting
the auditors who have examined the financial statements of the subsidiary company.

is attached and the schedules of consolidated deferred exploration and development
nies as at December 31, 1965 in accordance with generally accepted accounting

SOUPCOFF, STARKMAN, KRAFT & CO.
Chartered Accountants.

BLACK HAWK MINING LTD.

(No Personal Liability)

NOTES TO CONSOLIDATED BALANCE SHEET

December 31, 1965

1. (a) Under the provisions of the trust indenture dated July 15, 1965 securing the Debentures Series A:
 - (i) \$5,000,000 6½ % Debentures Series A have been authorized maturing June 30, 1974.
 - (ii) The company is required to make sinking fund payments on or before April 15 in each year equal to the consolidated net cash flow from operations (as defined) in the preceding twelve month period ending December 31.
 - (iii) The company and any subsidiary may not pay any dividends or make any other distributions on shares without the prior written consent of the debenture holders.
- (b) In accordance with an agreement dated August 7, 1964:
 - (i) Denison Mines Limited (Denison) has purchased \$2,100,000 6½ % Debentures Series A and 150,000 shares of the capital stock of the company (valued at \$62,500) for a cash consideration of \$2,047,500.
 - (ii) The proceeds of the said purchase were used in part to repay the \$1,500,000 6½ % secured notes of the company.
 - (iii) If Denison determines that further work is required on the company's mining lands then Denison agrees to provide the financing therefor through purchase of debentures and shares of the company on the terms and conditions set out in the said agreement.
2. The company has reserved 100,000 treasury shares for incentive options exercisable at \$1 per share on dates to be determined by the company. Options had been granted on 92,500 shares thereof and during the period 30,000 shares have been exercised and 10,000 shares have been forfeited. There remain 17,500 shares available for the granting of options.
3. The subsidiary being a United States company, its current assets and liabilities in United States dollars have been translated into Canadian dollars at the rate of exchange at December 31, 1965 and fixed assets are at the rate current at date of acquisition, and the exploration and development expenses and corporate expense are at the rate current at date of expenditures.
The subsidiary was acquired during the year ended April 30, 1965 and the consolidated figures as at December 31, 1965 include the exploration and development expenses and corporate expenses of the subsidiary, prior to acquisition.
4. No provision is being made for depreciation of fixed assets until such time as the company's mining properties come into production.
5. Mining Claims:

Six mining claims held under development licenses acquired and paid for in cash.....	\$ 20
Eight mining claims held under development licenses acquired by the issue of 600,000 shares at a discount of \$0.95 each	30,000
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Seven mining claims and mining rights acquired and paid for in cash	\$ 350
and by the issue of 300,000 shares at a discount of \$0.90 each	30,000
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	\$ 60,370
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6. Leased properties are held under annually renewable leases requiring rental payments and a 5% participation in the net value, as defined in the various leasing agreements, of the minerals and metals removed from the leased premises.
7. During the period, the fiscal year end date of Black Hawk Mining Ltd. (No Personal Liability) was changed from April 30 to December 31.

BLACK HAWK MINING LTD.

(No Personal Liability)

SCHEDULE "A"

CONSOLIDATED DEFERRED EXPLORATION AND DEVELOPMENT EXPENSES

For the eight months ended December 31, 1965 (Note 7)

	From Inception to April 30, 1965	Eight Months Ended December 31, 1965	From Inception to December 31, 1965
Quebec:			
Prospecting, developing and surveying	\$ 29,401	\$ 125	\$ 29,526
Diamond drilling, mapping and assaying	40,379	1	40,380
General field expenses	1,103	49	1,152
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	\$ 70,883	\$ 175	\$ 71,058
Maine:			
Prospecting, developing and surveying	\$ 23,376	\$ 2,891	\$ 26,267
Diamond drilling, mapping and assaying	235,358	28,564	263,922
Shaft sinking and underground development	242,688	460,207	702,895
General field expenses	89,043	94,313	183,356
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	\$590,465	\$585,975	\$1,176,440
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	\$661,348	\$586,150	\$1,247,498
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SCHEDULE "B"

CONSOLIDATED DEFERRED CORPORATE EXPENSES

For the eight months ended December 31, 1965 (Note 7)

	From Inception to April 30, 1965	Eight Months Ended December 31, 1965	From Inception to December 31, 1965
Registrars' and transfer agents' fees and expenses			
	\$ 3,355	\$ 1,910	\$ 5,265
Legal and audit fees and expenses	36,887	10,168	47,055
Capital and place of business tax	279	91	370
Interest on secured notes	23,097	33,177	56,274
Interest on debentures	—	43,452	43,452
Administrative salaries, communications, stationery and office supplies, rent, taxes, insurance and general office expenses	53,163	27,728	80,891
Travelling expenses	17,691	2,762	20,453
Loss on disposal of fixed assets	1,572	—	1,572
General expenses	8,878	1,236	10,114
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	\$144,922	\$120,524	\$ 265,446
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Summary:

Schedule "A"	\$661,348	\$586,150	\$1,247,498
Schedule "B"	\$144,922	\$120,524	\$ 265,446
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	\$806,270	\$706,674	\$1,512,944
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